**IMF Governance and Health**

David Woodward (Economic Governance for Health)  
1 February 2013

The following is a summary of the accompanying paper, *A High Price to Pay: IMF Governance, Management of Developing Country Financial Crises, and Health Impacts*, to which readers are referred for full details and supporting argumentation. The paper also includes discussion of possible counter-arguments to democratic reform of the IMF, and the historical context of IMF governance, which are omitted from this summary in the interests of brevity.

The Commission on Social Determinants of Health found that

“it is only through… a *system of global governance, placing … genuine equality of influence at the heart of decision-making*, that coherent attention to global health equity is possible.”

(CSDH, 2008, p19)

Nowhere is this more starkly demonstrated than in the case of the International Monetary Fund.

By any normal standards of democratic governance, there are serious shortcomings in the governance structures and decision-making processes of the International Monetary Fund, particularly with respect to the effectiveness of accountability and gross inequality of influence among members. The effects of these shortcomings are clearly apparent in the IMF’s management of debt and financial crises in developing countries and in the nature and content of its policy programmes in such countries; and these failings in turn have had serious impacts on health in the countries concerned, most notably in Sub-Saharan Africa, whose experience is assessed in the paper.

**Accountability**

The IMF’s governance structure is almost entirely devoid of any effective mechanisms to ensure either its accountability to its membership or its compliance with international law or even with its own Articles of Agreement.

- The infrequency, limited duration and nature of meetings of the Board of Governors makes it little more than a rubber-stamp for Executive Board decisions.
- The great majority of the membership has no effective say in the selection of the Executive Directors who control their votes, no control over how those votes are used, and no means of removing “their” Director in any circumstances.
- Even if each Director’s vote were determined by voting weights within his/her constituency, more than one-fifth of the membership would have no possibility of influencing the outcome of any decision.
- A majority of Executive Directors consider the mechanisms for ensuring the Board’s accountability “inadequate or nonexistent”, and a further quarter that they are “not used sufficiently”.
- The absence of formal votes and confidentiality of Board discussion makes it impossible for those outside government to ascertain how “their” votes have effectively been used.
- The outcome of Board meetings is decided by the Managing Director, on the basis of “summings-up” whose quality and accuracy has been challenged by Executive Directors.
- The Fund’s operations are driven mainly by “informal procedures” directed by the management, without Board approval.
- Even where guidelines are approved by the Board, there is no mechanism for ensuring that staff, management, or even the Board itself comply with them; and guidelines in key areas of both policy and governance have not been implemented, in some cases for decades.
- The Managing Director is effectively selected by a small minority of the membership on the basis of a 65-year-old “tradition” which has no legal basis, despite the Board’s adoption of guidelines for a more transparent and inclusive process.
- There are no effective mechanisms for ensuring the accountability of the Managing Director, once appointed, either to the Executive Board or to the membership.
- The only effective accountability mechanism in the Fund is that linking the staff to the management, and ultimately to the Managing Director.
- Although a specialised agency of the United Nations, the terms of the Fund’s agreement with the UN give the latter only a purely advisory role.
- The Fund does not consider itself to be bound by international law, including human rights conventions; and there are no legal or judicial mechanisms to ensure its compliance with such law.

In the absence of any effective mechanisms to ensure the accountability of the staff, management, or even Executive Directors either to the membership as a whole or to any more accountable institution or judicial authority, the Fund is, in a very real sense a law unto itself.

**Skewed Decision-Making**

Decision-making in the IMF is strongly and systematically skewed towards the developed countries, both explicitly through the voting system and through a number of less formal and indirect processes, giving them almost absolute control over the institution, although they represent a small minority both of the membership and of the world population, and are much less affected by the Fund’s policies and activities.

- The economically weighted voting system gives the developed countries a substantial majority of the votes, and three times the total vote of all low- and lower-middle income countries, which represent the majority both of the membership and of the world population, while discriminating strongly against low-income countries. (See Figure 1).
- The US alone has a veto on all major policy decisions, whereas all the low-income countries, voting together, would have less than one-third of the votes required.
- Five developed countries are entitled to appoint Directors, giving them effective control over 38.4% of the votes, while developing countries and smaller developed countries have “elected” Directors who are not accountable to them.
- Developing countries are further disenfranchised by a constituency system in which many are represented by developed country Directors over whose positions on policy issues they have little influence.
- Low- and lower-middle-income countries are systematically under-represented on the Executive Board and other decision-making and advisory bodies.
- The presence of even a single Director from the low-income country on the Board is now dependent on the rotation of the Directorship in the two Sub-Saharan constituencies.
- The independence of developing country Directors is compromised by their dependence on the goodwill of the staff and management for the negotiation of programmes.
The ability of Directors from most developing countries, and especially low-income countries and Sub-Saharan Africa, to engage effectively on policy issues is further reduced by heavy workloads on their constituents’ bilateral relations with the Fund, compounded by inadequacies in Board documentation.

There are serious constraints on collaboration and coordination among developing country Directors, which is essential to their influence on policy decisions – particularly in view of their limited voting power.

The Managing Director, who plays a central role in the Fund’s decision-making, and has very limited accountability once appointed, is effectively selected by Western European governments.
The result is a system which gives almost complete power to a rich minority of the membership of an institution whose activities impact overwhelmingly on the poor majority. Given the considerable role of the IMF in national policy-making in many developing countries over the last 30 years, it is by no means unreasonable to interpret this as an institutionalisation of neo-colonialism.

**Effects on IMF Performance**

The Fund has proved unable to prevent successive crises – even where, as in the 1980s, it appears to have anticipated them – resulting in a considerable increase in the frequency of such crises in the last 30 years as compared with the century before the Fund’s existence. Such crises have generally been at least partly attributable to failings in the Fund’s own policies, or its response to previous crises, or its impotence to act in the face of opposition by major developed countries. In the case of the debt crisis in low-income countries, it has presided over a severe crisis, with heavy economic and human costs for the countries affected for 25-30 years.

When crises have struck, the Fund’s responses have been inadequate or inappropriate. Its own resources have been increasingly inadequate to deal with crises, requiring it to play a “catalytic” role in securing funding from other resources; but, rather than playing a catalytic role in securing such funding, it has been essentially passive, allowing the pace of adjustment to be driven by the willingness of creditors to offer debt relief or lend new money. It has worsened solvency crises in low- and middle-income-countries by treating them initially as liquidity crises, and, in the former case by leaving the scale of debt cancellation to voluntary actions by creditors, despite their evident inadequacy. In the latter case, such voluntary debt cancellation appears to have allowed debt-servicing to resume, but at the expense of contributing to subsequent crises. The national policies promoted in response to both debt and financial crises have been widely criticised as ineffective or inappropriate; and the conditionality mechanisms used to enforce such policies have themselves undermined the effectiveness of crisis responses.

All of these failings can be more or less directly attributed to the Fund’s current governance structure, and particularly to an economically-weighted voting system which gives an overwhelming preponderance of power to creditors, and particularly the developed countries, while disempowering borrowing countries almost entirely. In the 1970s, it was unable to act to prevent or discourage the unsustainable accumulation of debts arising from the “recycling” process, which was actively promoted by the developed country governments, or to limit the impact of the latter’s response to the second oil price shock which was largely responsible for triggering the crisis.

In the 1980s, the Fund prioritised the debt problems of the middle-income countries, where the developed countries had a much greater financial stake to the near exclusion of a much more serious crisis in low-income countries, despite the far greater human impact of the latter. In the middle-income countries it followed the developed country governments in insisting on a voluntary approach to commercial creditors which seriously limited both new lending and debt reduction, greatly increasing the degree and pace of adjustment required to a level which undermined its viability and human impact, and gave rise to adverse long-term effects.

In relation to the low-income countries, the Fund largely abdicated its key role as arbiter of the balance between debt reduction, new financing and adjustment to the Paris Club – a wholly unaccountable and non-transparent forum in which only high-income countries were represented – from the late 1970s until the mid-1990s. Even then, it took a greater role only reluctantly and under considerable external pressure, leaving the World Bank to take the lead. Initiatives for debt reduction have come, neither from nor through the Fund, but from developed country governments through creditor-only fora (the Paris Club and the G7).

Through the 1990s, the developed countries were able to use their majority position to use the Fund to promote capital account liberalisation (although not to secure the amendment to the Articles of Agreement which was their ultimate objective). This is widely seen as having
been an important contributory factor to the Asian crisis from 1997. However, the Fund’s positive disposition towards free capital flows appears to have prevented them from anticipating the crisis.

While the Fund took a greater leadership role in responding the Asian financial crisis (as compared with the 1980s debt crises), its effectiveness was seriously undermined by the inadequacy of its own resources (due to the inadequacy of successive Quota increases) and its failure to anticipate the crisis, or therefore to develop appropriate financial mechanisms or policy responses. Its resulting dependence on developed countries for additional financing also resulted in the addition of clearly unnecessary and commercially-driven policy conditions in programmes, contributing to a proliferation of conditionality which undermined programme effectiveness.

Health Impacts – the Case of Sub-Saharan Africa

The period after the first serious debt problems in Sub-Saharan Africa in the second half of the 1970s witnessed a dramatic reduction in overall health outcome indicators such as life expectancy at birth and under-five mortality, average life expectancy actually declining between 1990 and 1995. This was reversed only in 1995-2000, improving further after 2000, as comprehensive debt cancellation became progressively more available. (See Figures 2 and 3.)
While this association of timing clearly does not prove causation, a very similar pattern can be observed in intermediate variables – the key variables affected by debt problems and the associated adjustment programmes which also have substantial effects on health – notably national income per capita, extreme poverty, incomes across (at least) the poorest 90% of the population, and public expenditure on health. The average income of the poorest 10% of the population fell by 18%, from $0.29 to $0.24 per person per day - less than one-fifth of the World Bank’s extreme poverty line – between 1981 and 1993.

While the poor performance of health outcome indicators in Sub-Saharan Africa is often assumed to reflect the impact of HIV/AIDS, this appears to be seriously inadequate as an explanation of the observed trends: the slowdown in the rate of improvement of such indicators occurs earlier, and is substantially greater than the estimated impact of HIV/AIDS. Moreover, a close causal association might be expected between debt problems and adjustment on the one hand, and many of the factors which are generally seen as having accelerated the progress of HIV/AIDS in the region (including the intermediate variables noted above).

In addition, the period in which the improvement of health indicators slowed down corresponds with other developments wholly independent of debt and adjustment, which would be expected (other things being equal) to accelerate the rate of improvement substantially – most notably mass vaccination programmes and the widespread introduction and use of oral rehydration therapy.

If we assume as a (conservative) approximation that the effects of these positive factors broadly cancel out the effects of that part of the HIV/AIDS epidemic which is not attributable to debt and adjustment, we may conclude that the combined impact of the debt crisis and adjustment programmes is in the order of 8 million additional under-five deaths (cumulatively to 2010) and life expectancy 5.8 years shorter in 2000 across a population of some 800 million people (compared with an extrapolation of pre-1980 trends).

**Recommendations**

There is a clear and urgent need for fundamental democratic reform of the governance structures of the IMF to fulfil the need identified by the Commission on Social Determinants of Health for “a system of global governance, placing … genuine equality of influence at the heart of decision-making”, and to make the Fund fully and equally accountable to its members and their populations.

1. The first and most important change required is the definitive abandonment of the anomalous, anachronistic and explicitly anti-democratic principle of economically-weighted voting. As in national democratic systems, voting weights should not take into account any consideration other than population. Since neither direct proportionality to population nor “one-country-one-vote” seems likely to provide a generally acceptable basis, consideration should be given to a system in which votes are proportional to a non-linear function of population.

2. The composition of the Executive Board should be based on a constituency system in which all IMF member countries have equal status, and none has an automatic right to its own Executive Director. The same principle should apply to all other decision-making bodies and committees, where the only legitimate reason for over-representation relative to (democratically determined) voting shares is disproportionate interest in the issues under consideration.

3. Executive Directors should be elected by the countries whose votes they are entitled to cast, and should remain accountable to those countries. Consideration could also be given to the election of Executive Directors by the pooled votes of Members of Parliament in constituent countries (weighted in accordance with national voting weights in the Fund), rather than by governments.
4. Regardless of the modalities of their election, Executive Directors should be accountable to Parliaments in their constituent countries for their statements and votes in the Executive Board.

5. The present system of “summing up” of Board discussions by the Executive Director should be replaced by formal votes, which should be made public.

6. Consideration should be given to live web-casts of Executive Board meetings discussing policy issues (though not country-specific discussions), except where the Board decides this to be inappropriate due to (clearly defined) exceptional circumstances defined by the global public good.

7. All documents and draft decisions on policy issues presented to the Board should be made publicly available at the time they are issued to the Board, to allow informed discussion and advocacy by civil society, subject to the same proviso.

8. Each Director’s office should be fully funded by the IMF, and its size should be determined according to an assessment of the resources required for the Director to participate fully and effectively in all Executive Board discussions, taking account of the size, nature and circumstances of his or her constituency and the support available to him/her from his/her constituents.

9. Adequate IMF resources should also be provided to low- and middle-income country governments and Parliaments to finance effective engagement with their respective Directors, including technical assistance from independent providers of their choice.

10. The Managing Director should be selected by all IMF members on an equal basis, through an open, transparent and democratic process, subject to independent monitoring. As in the case of Executive Directors, consideration should be given to the election of the Managing Director by the pooled votes of Parliamentarians in all member countries, weighted in accordance with each country’s (democratic) voting weight in the Fund.

11. Effective mechanisms should be put in place to ensure the accountability of the Managing Director to the Executive Board, including mechanisms for censure (and ultimately dismissal) in the case of incompetence or misconduct.

12. Effective mechanisms should also be put in place to prevent attempts by Executive Directors, member states or other parties to exert inappropriate influence on other Directors, eg through diplomatic, economic or financial threats or inducements towards themselves or those they represent.

13. The IMF should be brought more effectively into the overall system of global governance, as a specialised agency of the United Nations on a similar footing with other such agencies, through a revision of the agreement which establishes this status.

14. The IMF as an institution should be made explicitly subject to international law, including human rights instruments, and member governments and representatives to the IMF should be explicitly required to observe extra-territorial human rights obligations in exercising their role in IMF decision-making.

15. Both the IMF as an institution and national governments as members of the IMF should be subject to judicial processes in international civil and criminal law for their obligations under international law in relation to IMF decision-making.

Consideration could also be given to similar principles in governance reform for other international institutions.